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1987-88

Montana Lottery
Annual report
First year 1987-1988

STATE DOCUMENTS COLLECTION

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Montana Lottery Annual Report First Year 1987-1988

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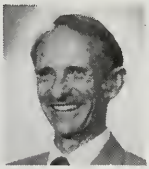
Montana Lottery Commission

Spencer Hegstad, Chairman, Dillon

Glenn Osborne, Great Falls

Pat DeVries, Polson



Jim Moore, Bozeman

Keith Colbo, Helena

Montana Lottery Director

Diana Dowling

WHAT A YEAR!

- First year sales of $25.6 million.
- Net profits of $8.4 million sent to counties for school district employee benefits fund. Fund annually needs $50 million raised by property taxes.
- First year profits rank with those of the top 50 Montana businesses.
- $11.5 million paid out as prize winnings to hundreds of thousands of players.
- 1,000 Montana businesses who sell lottery tickets received $1.4 million in commissions.
- Started a multi-million dollar business within six months with one of the smallest lottery staffs in the country.
- Opening day ticket sales set a national per capita record ($1.24 per capita on June 24, 1987).

Montana Lottery Staff

RANGER REBEL
Ranger-Rebel Staff Writer
SEP 2 9
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

Lottery to reduce tax bills

By JB RUTHERSON
Ranger-Review Staff Writer

The average Gawson County tax payer will be assessed $ 35 milli less this year for teachers retirement, thanks mostly to the Montana L

WHITEFISH PILOT
Whitefish, MT 59937
(Thurs., 15,610)
OCT 5
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

Whitefish schools receive $80,000 nest egg

Whitefish schools have been allotted more than $80,000 from state lottery proceeds received by the county Sept. 13.

$660,252 paid to Flathead

said County Superintendent of Schools Dorothy Laird. If not for the lottery money, the retirement fund, frozen by tax initiative 105, would have come up

public for the county employee retirement fund.

"[illegible] is not additional

short this year, Laird said.

"No one has come up with an answer of what you do if you're short in that fund," Laird said.

receive any of the lottery money. Hudspeth said Lincoln County more than met the 9 mills requirement this year since it levied

WESTERN NEWS
Libby, MT 59923
(Wed. & Sat.)
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

School lottery gain marked to retirement account fund

Lincoln County last week received $223,989—its share of the state lottery money—for the county-wide high school and elementary teachers' retirement

received, Hudspeth said, it isn't "new money" because the county anticipated receiving about $200,000.

Since the school districts didn't have solid information on how much the lottery would provide when the school budgets had to be finalized by July 4, the money wasn't budgeted into the 1988-1989 school budgets, Hudspeth said.

Therefore, the

THE MADISONIAN
Virginia City, MT 59755
(Thurs., 1,500)
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

Lottery Returned $63,531

by Dick Pace
A total of $63,531 went to

high schoo $1,601.12, the lottery money

School budgets for the

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expenses and start up
net income of $8.4 m
Measured against

RAVALLI REPUBLIC
Hamilton MT 59840
(Mon. - Fri.)
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

Lottery gives county a check for $265,500

By RUTH THORNING
Ravalli Republic Staff Writer

At the end of its first fiscal year the Montana Lott
million to the state Offi
Montana's $6 coun
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transferred $8.4 distribution to

$265,505 to be
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tery, page 3

THE STILLWATER STAR
Columbus, MT 59019
(Thurs. 7,100)
OCT 1
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

Funds deposited in county

The Stillwater County treasury grew considerably over the past month when funds from the Mon-

adds some

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POWDER RIVER EXAMINER
Broadus, MT 59317
(Thurs. 1,000)
SEP 2 1988
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

Lottery money received

The Lottery
What
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Measured
Lottery

BURTON HILL HERALD
Hardin, MT 59034
(Wed. 1,600)
OCT 1 1988
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

County share of lottery funds totals $26,705

The Montana Lottery transferred $8.4 million to the state Office of Public Instruction for distribution to Montana Counties for its first year of operation. Year end Lottery figures were released today at a meeting of the Montana Lottery & Commission. Lottery profits were sent to county treasurers for distribution to the employer's a benefits

We began a multimillion dollar business one week earlier than mandated by the Lottery, an incredible feat with only one of the smallest lottery staffs in the country and one of the top 20 businesses in the state in gross receipts.

More retailers (1000) were licensed per capita than in any other state lottery in the country. Retailer bonuses for the first year were

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Lottery pays big bucks to state schools

The Montana Lottery transferred $8.4 million to the state Office of Public Instruction for distribution to Montana counties according to Di-
Barg Horn County treasurer Mary Dowling, lottery director
Counties will receive a total of $[illegible] state

aturday October 1 1988—9

down

n	$85,719
lasin	$26,705
	$245,031
ld Clark	$518,429
	$25,780
	$223,989
	$63,531
	$28,134
	$20,472
	$40,429
	$741,846
	$51,523
	115

Billings Gazette 10/1/88

Montana Lottery meets its goal of property-tax relief

HELENA (AP) — The nearly $26 million in first-year Montana Lottery ticket sales topped early predictions, but Director Diana Dowling said Friday that revenue in the second year could drop 30 percent as the game's novelty wears off.

Still, the lottery has done what it was supposed to do by funneling millions of dollars into public schools' retirement programs to provide tax relief for property owners, she told the Lottery Commission.

While the $8.4 million handed over to counties for their schools was short of the $16 million that lottery proponents forecast two years ago, Dowling noted that the difference was the result of about $1.5 million in one-time start up costs.

In revising the lottery's financial report for the fiscal year ending June 30, she noted that the state's first ever lottery was started in mid-1987 a week earlier than required by the law and has been operated with one of the nation's smallest staffs — 35 people.

The lottery's gross revenue makes it one of Mon-

has more retail
tate
bertson,
pect s

million its first year. Although the lottery outdistanced that estimate, Dowling said Montana is not expected to be immune from the national tendency for decreased sales in second-year sales.

She said sales next year could be $18 million.

However, that figure doesn't include possible revenue from an "on-line" game that may be started next summer. Such a game allows players to choose a series of numbers, which are then entered in a computer, winners are determined in periodic drawings.

Montana may join other states in a regional on-line game with Idaho, South Dakota and Wyoming the most likely partners, Dowling said. The lottery issue is on Idaho's ballot this fall.

Dowling said the 1989 Montana Legislature will be asked to approve changes in the law to allow the state to participate in multistate lotteries elsewhere in the coun

Of its $25.9 million in revenue so far the lottery h
given out $11.6 mill

HELENA (AP) — Here is a list of the $8.4 million in first year lottery revenue paid to counties for use in offsetting some property taxes in school districts' employer retirement funds. The amounts were determined by enrollments

Three counties — Fallon, Rosebud and Wibaux — did not receive money because the
ol levy the necessary minimum of nine
r retirement pro
ssavehead —

Big Horn — $130,265	Granite — $30,536	Powder River — $26,077
Blaine — $66,576	Hill — $183,160	Powell — $63,131
Broadwater — $42,602	Jefferson — $85,719	Prairie — $18,928
Carbon — $95,440	Judith Basin — $26,705	Ravalli — $265,505
Carter — $15,039	Lake — $245,033	Richland — $148,564
Cascade — $781,074	Lewis & Clark — $518,429	Roosevelt — $153,653
Chouleau — $65,990	Liberty — $25,790	Sanders — $101,101
Custer — $131,666	Lincoln — $223,989	Sheridan — $59,014
Daniels — $29,678	Madison — $53,531	Silver Bow — $331,037
Dawson — $119,057	McCone — $28,134	Stillwater — $76,569
Deer Lodge — $103,903	Meagher — $20,472	Sweet Grass — $37,055
Fergus — $128,206	Mineral — $40,429	Teton — $71,194
Flathead — $650,752	Missoula — $741,846	Toole — $55,011
	Musselshell — $51,523	Treasure — $10,865
	Park — $121,115	Valley — $104,303
	Petroleum — $6,347	Wheatland — $23,874
	Phillips — $25,780	Wibaux — $9,200,747
	Pondera — $63,531	Yellowstone —

The Montana Standard Butte Sunday October 2 1988

Montana Lottery sales top estimate

By BOB ANEZ
Associated Press Writer

HELENA — The nearly $26 mil-
lion in first-year Montana Lottery ticket sales topped early predictions, but Director Diana Dowling said Friday that revenue in the second year could drop 30 percent as some of the games' novelty wears off.

Still, the lottery has done what it was supposed to do by funneling millions of dollars into public schools' retirement pro-

Great Falls Tribune 10/1/88

L&C gets $518,429 from lottery ■

The Montana Lottery's final payment of $8.47 million for fiscal year 1988 has been made to Montana public schools, state Superintendent Ed Argenbright says.

Argenbright said the monies amounted to $57.48 per student.

Lewis and Clark County received $518,429. The amounts in other area counties were: $42,602 in Broadwater; $65,719 in Jefferson; $63,131 in Powell.

The lottery is found in state law to pay its profits to state pub lic schools. Its first year of operation ended June 30.

The payments to each county ranged from $6,347 in Petroleum County to $1.2 million in Yellowstone County.

Rosebud, Wibaux and Fallon counties received no payments because they do not levy the ensing amount of mills for teacher-retirement benefits.

ancial report shows Allowed 15 percent for operating costs, the int very spent 14.7 percent

ercent of the

KALISPELL WEEKLY NEWS
Kalispell, MT 59901
(Wed.)
OCT
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

Flathead received $650,752 from lottery

The Montana Lottery recent-
ly transferred $8.4 million to the state Office of Public In-
struction for distribution to Montana counties for its first

Diana Dowling, Lottery Direc-
tor. "With $26 million in revenue, $11.6 million in prize winnings, $1.4 million in retailer commissions and $4.5 million in operating expenses and start-up costs, we have a net income of over $8 million."

The lottery's profits of over $8 million which is higher than once measure of a successful business according to the Director of the Lotteries

Bureau of

a review of Oun and Bradstreet figures, the average reporting business had net revenue of $4% of gross receipts," Polzin said.

"The nu
local schools
from
needed
the 1987-88
$50 million
employee
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money's

POWDER RIVER EXAMINER
Broadus, MT 59317
(Thurs.)
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

Lottery money received

The lottery payment for 1988 has been made to Montana's public schools by State

STEVENSVILLE MT 59870
Weekly
OCT
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

Lottery profits after year

$ million in the
distribution to
operation
of the more than
benefits statewide,
amount is based on

ANACONDA LEADER
Anaconda, MT 59711
(Wed. & Thurs.)
OCT 5 1988
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

Schools net lottery receipts

Because that is on the revenue side of the budget, the amount was estimated by County Superintendent of Schools Carl Schettner Stetzner was unavailable for comment Tuesday.

Lottery Director Diana Dowling said the state lottery brought in $25.9 million in revenue, with $11.6 million going to prize winnings, $1.4 million to retailer commissions and $4.5 million in operating expenses and start-up costs.

The lottery saw profits of more than 30 percent, which is more than snugher than one measure of successful business accordiau to the

reporting business had net revenue or five to eight percent of gross receipts," Polzin said

However, more is needed ac-
$2,000,0

cording to Dowling. "The
money, which goes to local
intendent of schools Ostrburton
said The pa

Butte-Silver Bow seventh in revenue paid to counties

HELENA (AP) — Here is a list of the $8.4 million in first-year lottery revenue paid to counties for use in offsetting some property taxes in school districts' employer retirement funds. The amounts were determined by enrollments. The

Three counties — Fallon, Rosebud and Wibaux — did not receive money because they do not levy the necessary mills

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Carbon — $95,440	Judith Basin — $26,705	Ravalli — $265,505
Carter — $15,039	Lake — $245,033	Richland — $148,564
Cascade — $781,074	Lewis & Clark — $518,429	Roosevelt — $153,653
Chouleau — $65,990	Liberty — $25,790	Sanders — $101,101
Custer — $131,666	Lincoln — $223,989	Sheridan — $59,014
Daniels — $29,678	Madison — $53,531	Silver Bow — $331,037
Dawson — $119,057	McCone — $28,134	Stillwater — $76,569
Deer Lodge — $103,903	Meagher — $20,472	Sweet Grass — $37,055
Fergus — $128,206	Mineral — $40,429	Teton — $71,194
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	Musselshell — $51,523	Treasure — $10,865
	Park — $121,115	Valley — $104,303
	Petroleum — $6,347	Wheatland — $23,874
	Phillips — $25,780	Wibaux — $9,200,747
	Pondera — $63,531	Yellowstone —

BIG TIMBER PIONEER
Big Timber, MT 59011
(Wed. - Sun.)
OCT 1
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

What the Lottery winners are doing

The Montana Lottery is a little over a year old, the first payments have been sent to local school districts and the four biggest winners are enjoying their prizes. What have they done with their money so far?

The first big lottery winner was Rose Lindsay of Laurel. She won $3,075,000 on November 4, 1987 and will receive $123,000 a year until Lauren Rose purchased a car and a house with her first check and says she has not changed her lifestyle. She enjoys time spent with her son, Tom, and his family and is adjusting to having insurance for the first time in her

Lottery makes first year payments for MT schools

The Montana Lottery has trans-
ferred $8.4 million to the st

HOLTZER MONITOR
Boulder, MT 59632
(Thurs. 1,900)
SEP
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

Lottery Payments Made To Schools

The lottery payment for 1988 has been made to Montana's public schools by State Superintendent Ed Argenbright

This payment, totalling $8,375,890 represents approximately $57.48 per student

TIMES-CLARION
Hardwick, MT 84644
(Wed.)
OCT 6 1988
SUPERIOR CLIPPING SERVICE
Billings MT 59105-0799

JORDAN TRIBUNE
Jordan, MT 59337
(Thurs. 800)
SEP 2 9 1988
SUPERIOR CLIPPING SERVICE
BILLINGS MT 59105-0799

Lottery money received

are. The lottery payment for 1988 has been made to Montana's public schools by State Superintendent Ed Argenbright

County gets lottery payoff

Flathead County schools have received a $650,752 payment from state lottery proceeds

Funds are earmarked entirely for the teachers retirement fund

The state Office of Public Instruction recently apportioned the monies on the basis of a 1987 average number of students in

high schools

Flathead county received its
money Monday, according to a spokeswoman for the county superintendent of schools. Ostrburton said The pa

Have won $626,000 on December 2 of last year after taxes. With her first check Judy Lynn Hayes bought a new set carpet to replace what had been lost in a house fire and she and her husband, Tom, also purchased a car and a home with her money.

Also on December 9, Robert Lynch from Lipping, ND, won $350,000. After taxes Robert will receive $16,847 a year. Most of his farm bills. He got his tractor repaired back. His wife, Edene, also got a riding

an, formerly of Billings, was the fourth
y in the Montana Lottery. On February
d will receive $38,000 a year after taxes.
land, Sea World, and the San Diego

MONTANA LOTTERY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1988

MONTANA LOTTERY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1988

TABLE OF CONTENTS

	Page
Appointive Officials	iv
Report Distribution	v
Transmittal Letter	1
Auditor's Opinion	3
Balance Sheet	4
Statement of Revenues, Expenses and Changes in Retained Earnings	5
Statement of Changes in Financial Position	6
Notes to the Financial Statements	7
Summary of Financial Distribution	19

APPOINTIVE OFFICIALS

Diana S. Dowling, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION

		TERM EXPIRES
Spencer Hegstad, Chairman	Dillon	January 1, 1990
Pat DeVries	Polson	January 1, 1991
Glenn Osborne	Great Falls	January 1, 1989
Jim Moore	Bozeman	January 1, 1990
Keith Colbo	Helena	January 1, 1989

LOTTERY LIAISON COMMITTEE

Senator Larry Tveit	Fairview
Senator Larry Stimatz	Butte
Representative Budd Gould	Missoula
Representative John Vincent	Bozeman

REPORT DISTRIBUTION

According to Section 23-5-1007(7), MCA, copies of this report must be distributed to the following individuals.

Ted Schwinden, Governor

Ellen Feaver, Director, Department of Administration

Scott Seacat, Legislative Auditor

Bill Norman, President of the Senate

Robert L. Marks, Speaker of the House

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each Member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House requested this report be distributed to the Revenue Oversight Committee. In addition, the Speaker of the House requested this report be distributed to the House Business and Labor Committee.

Ted Schwinden
Governor

Diana S. Dowling
Director

Gerald J. LaChere
Operations
Nancy L. Goodspeed
Marketing
L. John Onstad
Security

2525 N. Montana
Helena, MT 59601-0542
(406) 444-LUCK

December 31, 1988

Starting a multimillion dollar business one week earlier than mandated by law was no easy task. Yet, the Montana Lottery set a national per capita opening day sales record on June 24, 1987.

And we're one of the most cost efficient lotteries in the nation. After handling $25.6 million in sales transactions, with over 1,000 retail sales agents, the Montana Lottery did not write off a single bad debt in it's first year!

It's been an exhilarating and productive year.

Much of the credit for the Lottery should rightfully go to the players who've offered their suggestions. Many improvements in the games and the Big Spin were direct responses to their comments.

RECOMMENDED CHANGES

The Lottery Law specifically requests that recommendations for change be included in this report. To continue as a healthy and profitable business, we will recommend the following to the 1989 session of the Montana Legislature:

1) Provide that the Lottery Commission may determine the percentage of prize payouts subject to a minimum of 45%,

2) Clarify that sales agents' commissions are based on the face value of the tickets,

3) Clarify that tickets or chances may not be purchased on credit,

4) Prohibit members of households of Lottery staff, contractors, and auditors from participating or having a financial interest in the Lottery,

Montana Lottery Commission Members

Spencer Hegstad, Chairman, Dillon
Keith Colbo, Helena
Pat DeVries, Polson
Jim Moore, Bozeman
Glenn Osborne, Great Falls

5) Make fingerprinting of sales agents permissive instead of mandatory,

6) Clarify that Montana may participate in multistate games,

7) Eliminate the statutory appropriation of Lottery operating expenses.

The second year of most lotteries pales in comparison to startup and the excitement generated in the beginning of a new and innovative product. Montana promises to be no exception. However, with the above changes, and the introduction of an on-line product, the future should be bright and productive.

Sincerely,

Diana S. Dowling

Diana Dowling
Director

JUNKERMIER, CLARK, CAMPANELLA, STEVENS PC
Certified Public Accountants
Montana Club Building • P. O. Box 1164 • Helena, Montana 59624 • (406) 442-6901

Ward F. Junkermier
George L. Campanella
Stone E. Paulson, Jr.
Rick A. Frost
Robert E. Nebel
Joseph F. Shevlin
Ronald A. Taylor
Kent A. Borglum
Terry L. Alborn
Bill Eidel
Walter J. Kero
Robert C. Loewen

OFFICES
600 Central Plaza Suite 208
Great Falls, Montana 59401
406-761-2820

607 South West Higgins Avenue
Missoula, Montana 59801
406-549-4148

Commissioners
Montana State Lottery
Helena, Montana

We have audited the accompanying balance sheets of Montana State Lottery as of June 30, 1988 and the related statements of revenue, expense and changes in retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State Lottery as of June 30, 1988 and the results of its operations, and changes in financial position for the year then ended in conformity with generally accepted accounting principles.

As described in Note 2 to the financial statements, the Lottery adjusted its accounting estimate for tickets returned from retailers after the fiscal year end.

Junkermier, Clark, Campanella, Stevens, PC

Helena, Montana
October 26, 1988

MONTANA LOTTERY
BALANCE SHEET
JUNE 30, 1988

ASSETS

Cash	$ 3,788,451
Receivables (Net)	222,301
Inventories	199,217
Equipment	730,671
Other Fixed Assets	4,093
Accumulated Depreciation	(126,712)
Intangible Assets	672,320
Other Assets	27,148
TOTAL ASSETS	$ 5,517,489

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable and Accruals	$ 50,653
Lottery Prizes Payable	3,375,415
Due to Other Funds (Note 5)	1,321,413
Installment Purchase/Lease Payable (Note 6)	543,318
Compensated Absences Payable (Note 1)	74,705
Allowance for Ticket Returns	291,420
	$ 5,656,924
FUND EQUITY:	
Retained Earnings Unreserved (Note 11)	(139,435)
Total Fund Equity	(139,435)
TOTAL LIABILITIES AND FUND EQUITY	$ 5,517,489

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEAR ENDED JUNE 30, 1988

	Year ended June 30, 1988
OPERATING REVENUES:	
Charges for Service	
Net lottery ticket revenue	$ 21,787,581
License and permits	5,900
Total Operating Revenues	21,793,481
Prizes and Commissions	
Prize expense	(9,807,415)
Retailer commission	(1,210,074)
Net Operating Revenue	$ 10,775,992
OPERATING EXPENSES:	
Amortization	$ 168,080
Personal Services	977,415
Contractual Services	139,934
Cost of tickets sold	800,142
Audit Fees	46,652
Supplies and Materials	55,119
Depreciation	107,912
Utilities and Rent	101,598
Communications	88,863
Advertising	573,503
Travel	58,078
Repairs and Maintenance	72,199
Management Service Fee	74,800
Other	10,833
Total Operating Expense	$ 3,275,128
Operating Income	$ 7,500,864
NONOPERATING REVENUES (EXPENSES)	
Interest Expense	(18,022)
Total Nonoperating Revenues (Expense)	(18,022)
Income before Operating Transfers	7,482,842
Operating Transfers In (Out)	8,375,894
NET INCOME (LOSS)	$ (893,052)
Retained Earnings, Beginning of Period	1,235,684
Prior Period Adjustments (Note 2)	(482,067)
Retained Earnings, Beginning of Period as Restated	753,617
RETAINED EARNINGS, END OF PERIOD	$ (139,435)

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

SOURCES OF WORKING CAPITAL:	
Operations:	
Net Income (Loss)	$(893,052)
Items not Requiring Working Capital:	
Depreciation	107,912
Amortization	168,080
Working Capital Provided by Operations	(617,060)
Disposal of Fixed Assets	211
Increase in Noncurrent Payable	7,014
Increase in Compensated Absences	43,389
Total Sources of Working Capital	(566,446)
USES OF WORKING CAPITAL:	
Acquisition of Fixed Assets	(55,506)
Decrease of Noncurrent Payables	(280,751)
Reduction of Fund Equity due to Prior Period Adjustments	(482,067)
Total Uses of Working Capital	(818,324)
Net Increase (Decrease) in Working Capital	**$(1,384,770)**
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:	
Cash	$ 3,592,405
Receivables	(3,195,724)
Due From Other Funds	(280)
Inventories	(180,241)
Other Assets	18,577
Accounts Payable and Accruals	953,226
Lottery Prizes Payable	(2,281,764)
Interfund Loans Payable	1,230,000
Due to Other Funds	(1,229,549)
Allowance for Ticket Returns	(291,420)
Net Increase (Decrease) in Working Capital	**$(1,384,770)**

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-5-1001, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer regional lottery games and prepare financial reports.

For financial reporting purposes, the Montana Lottery, a division within the Montana Department of Commerce, is considered a component unit of the oversight unit known as the State of Montana. Disclosures related to Montana's deferred compensation plan, self insurance funds, unemployment insurance compensation and state compensation insurance are included in the Montana Comprehensive Annual Financial Report as of June 30, 1988.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund.

The Montana Lottery is classified as an Enterprise Fund of the governmental Proprietary Fund Type. Enterprise Funds account for operations a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Enterprise Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This focus means all assets and liabilities associated with this activity are included on the balance sheet. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Receivables. Receivables totalling $206,195 represent amounts owing the Lottery for purchased tickets. An allowance for doubtful accounts is usually based on historical perspective. Uncollectible accounts over 90 days old amounted to $1,675 at the end of the financial reporting period. These uncollectible account balances represent less than 1% of the outstanding accounts receivables as of June 30, 1988. Because of no historical perspective and the immaterial uncollectible account balances, an allowance for doubtful accounts has not been established.

Receivables also include $16,106 in retailer commissions related to estimated ticket returns.

Inventories. Inventories consist of merchandise, Instabuck and supplies inventories. Merchandise inventory includes lottery tickets valued at $114,720 stored in the warehouse and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold when sold. After game end and awaiting disposal, unsold tickets are charged to cost of tickets sold.

Merchandise inventory includes a $6,367 adjustment related to estimated ticket returns.

Supplies inventories include paper supplies and point-of-sale materials having a value of $5,000 or more. At year end, supplies and Instabuck inventories totaled $78,130. These inventories are also recorded at cost using the specific identification method.

As an enterprise fund, the Lottery reports inventory using the "consumption" method. This method means inventories are expensed as used.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated to not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's payable for compensated balances is detailed below.

Balance June 30, 1987	Net Leave Earned/Used	Balance June 30, 1988
$31,316	$43,389	$74,705

Allowance for Ticket Returns. Ticket sales have been increased by approximately $731,000 for net estimated ticket returns related to fiscal year 1987 and 1988. Prize expense has been adjusted by approximately $330,000. Commissions and cost of goods sold have also been adjusted for expenses associated with this allowance.

Revenue Recognition. Lottery ticket sales are recorded as revenue based on ticket deliveries to the retailers. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales have been increased by an allowance for estimated ticket returns.

Free Tickcts. The Montana Lottery's instant games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free tickets distributed approximated $2,385,400 for the year ended June 30, 1988.

Instabucks. Instabucks are a Lottery coupon good, upon redemption, for a lottery ticket. Instabucks, used to stimulate lottery ticket sales, are usually given away for promotions, retailer clerk incentive programs, and advertising trade-outs. The lottery tickets distributed resulting from Instabuck redemptions are reflected as a reduction in revenue. The related prize expense and ticket cost are reclassified as an advertising expense. For the year ended June 30, 1988, Instabuck redemptions resulted in a revenue reduction of $11,182 and a prize expense reclassification of $5,020.

Coupons. Occasionally, the Lottery promotes ticket sales by distributing coupons as matches for instant prizes. Cash prizes related to the coupons are included in the prize structure. Free ticket prizes awarded due to a coupon match are reflected as a reduction of revenue. For the year ended June 30, 1988, free ticket prizes awarded with a coupon match resulted in a revenue reduction of $17,296.

Prizes. Expenses for instant prizes are recorded based on the predetermined prize structure for each game. No prize expense is recorded for free tickets distributed.

Commissions. Retailers receive a five percent commission on tickets or chances sold. Commission expense is recorded based on the face value of tickets delivered to the retailers.

Amortization. The Instant Lottery System (ILS) software, classified as an intangible asset, is being amortized over a period of five years using the straight line method.

2. PRIOR PERIOD ADJUSTMENTS

The prior period adjustments of $(482,067) for the year ended June 30, 1988 reflect corrections of errors resulting in beginning retained earnings restatement. Of these adjustments, $(483,079) relates to estimated ticket returns as of June 30, 1987 and $1,012 reflects asset capitalization.

For the first period of operation ended June 30, 1987, returned tickets were not considered in reporting revenue due to the absence of an historical perspective regarding future returned tickets. The accounting estimate was adjusted to include estimates of returned tickets as a reduction in revenue in the year the ticket was sold. The effect of the change is recorded as a reduction in retained earnings of $483,079.

3. BUDGETARY REPORTING

Budget Process. The Montana Lottery's budget is based on statutory and legislative appropriations. According to Montana law, the Lottery is allowed 15% of gross revenues for operating expenses, must pay "as near as possible to 45%" in prizes, provides retailers a 5% commission on tickets sold and transfers net revenue to the State Office of Public Instruction.

The Montana Constitution requires that Legislative appropriations not exceed available revenues. Revenues are administratively budgeted, but not legally adopted. Expenditures may not legally exceed budgeted appropriations at the program level. Also, the Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues.

Agency budget requests are submitted to the Governor and the legislative fiscal analyst. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal analyst who then prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the Legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported to the House and subsequently to the Senate. The Legislature generally enacts one bill making all appropriations for the next two fiscal years. Other appropriations are enacted by the Legislature, but only

within the revenue available. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by line item (i.e., personal services, contractual services, equipment, etc.). The budget director may authorize transfers of funds between line items unless limited by the appropriation act.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's Office. For fiscal year 1987-1988, the Lottery had a continuing appropriation associated with the Lottery start-up.

Appropriations that are not continued are reverted after fiscal year-end. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Retained earnings are not reserved for reverted appropriations. Reverted appropriations for fiscal year 1988 were $1,185.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities to reserve a portion of the applicable appropriation, is employed for budget control purposes.

Budget Basis. The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and purchased inventories and nonbudgeted activity (e.g., bad-debt write-offs, cost of goods sold, etc.).

4. CASH AND INTEREST INCOME

The Montana Lottery's cash consists of cash deposits within the State Treasury. The risk categories of these cash deposits include:

1) Insured (FDIC)
2) Uninsured
    a) Collateral held by State Treasury
    b) Collateral held by pledging institution
    c) Held by federal government
    d) Uncollateralized*
3) Cash invested in short-term pool
4) Cash invested in repurchase agreements
5) Outstanding warrants
6) Short-term investments

* The State's main depository bank balance fluctuates daily. The State requires collateralization based on an average daily bank balance.

The distribution of the approximately $3.8 million in cash as of June 30, 1988 among the various risk categories identified above is unknown.

As indicated above, the Montana Lottery's cash is invested daily with other state surplus Treasury cash. The Lottery, by law, is not allowed to invest its excess cash. Using the fiscal year 1988 Short Term Investment Pool (STIP) interest rate of 7.06%, Lottery monies earned approximately $496,000 for the General Fund since July 1, 1987. These interest earnings are not reflected on the Lottery's financial records.

5. DUE TO OTHER FUNDS

The account "Due to Other Funds" totalling $1,321,413 reflects the $1,232,477 payable to the State Superintendent of Public Instruction and $88,936 due to other state agencies for goods and services provided through fiscal year end. The $1,232,477 transfer for the quarter ended June 30, 1988 was paid to the State Superintendent of Public Instruction on July 21, 1988.

6. INSTALLMENT/LEASE PURCHASES

The Montana Lottery leases office and warehouse facilities in Helena, Montana. The five year lease expires in 1992.

The schedule of future minimum rental payments required under operating leases for the next five years is as follows.

Fiscal Year Ending June 30	
1989	$ 81,600
1990	81,600
1991	81,600
1992	54,400
1993	-0-
Thereafter	-0-
	$299,200

Future minimum lease payments under capital leases/installment purchases for a copier and the Instant Lottery System (ILS) software are as follows:

Fiscal Year Ending June 30	
1989	$283,121
1990	259,777
1991	1,992
1992	-0-
1993	-0-
Thereafter	-0-
Total minimum payments	544,890
Less interest	(1,572)
	$543,318

The change in capitalized leases/installment purchases follows:

Balance, July 1, 1987	817,055
Additions (Deductions)	(273,737)
Balance, June 30, 1988	543,318

7. EQUIPMENT AND OTHER FIXED ASSETS

Equipment and other fixed assets are recorded at cost. Depreciation is calculated using the straight-line method over estimated lives of four to ten years.

Changes in the equipment and other fixed asset balances for the fiscal year ended June 30, 1988 follow:

	Balance June 30, 1987	Addition	Deletion	Balance June 30, 1987
Equipment	$675,376	$55,506	$211	$730,671
Other Fixed Assets	4,093			4,093
Subtotal/ Total	$679,469	$55,506	$211	$734,764
Accumulated Depreciation	(18,800)			(126,712)
Total	$660,669			$608,052

8. PAID PRIZES

Section 23-5-1027 MCA states "as near as possible to 45% of the money paid for tickets or chances must be paid as prize money".

For the year ended June 30, 1988, the prize expense of $9,807,415 reflects 45.01% of net ticket revenues totalling $21,787,581. From July 1, 1987 through June 30, 1988 prizes paid are detailed as follows:

High-tier	$1,877,974
Low-tier	4,235,206
Big Spin	957,088
	$7,070,268

High-tier prizes reflect prizes greater than $25 paid through Lottery headquarters. Low-tier prizes of $25 or less are paid by the retailer or Lottery headquarters.

9. PRIZE ANNUITIES.

The Lottery awarded four Big Spin Jackpot prizes amounting to $5,000,000 as of June 30, 1988. These prizes are paid in equal annual installments of a minimum of $20,000 not to exceed 20 years. The first installments, totalling $253,088, were paid during the year ended June 30, 1988.

10. TRANSFER TO STATE SUPERINTENDENT OF PUBLIC INSTRUCTION.

Section 23-5-1027, MCA states "that part of all gross revenue not used for payment of prizes, commissions, and operating expenses is net revenue and must be paid quarterly from the enterprise fund to the State Superintendent of Public Instruction for distribution as equalization aid to retirement funds..." For the quarter ended June 30, 1988, the net revenue amounted to $1,232,477. This amount was transferred to the State Superintendent of Public Instruction on July 21, 1988.

The $8,375,894 cumulative transfer figure includes the net income for the twelve months ended June 30, 1988, and the period ended June 30, 1987. The Lottery was exempted from making a transfer for the quarter ended June 30, 1987 until the general fund start-up loan had been repaid. This loan was repaid on August 19, 1987.

11. DEFICIT RETAINED EARNINGS.

According to the law, the Lottery's net revenue must be transferred quarterly to the State Superintendent of Public Instruction. This transfer should result in a zero retained earnings balance. However, due to adjusting for the net effect of estimated ticket returns and the recording of a fiscal year 1987-1988 expenditure after calculation of the transfer, the retained earnings balance is ($139,435) rather than zero.

12. GAMES.

Currently, the Montana Lottery games are instant ticket games. These games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize. Players also have another chance to win by submitting five non-winning tickets or their promotional equivalent for the Big Spin drawing.

13. COMMITMENTS.

As an Enterprise Fund, the Lottery's fixed budget has been legally adopted. This budget excludes depreciation, amortization, compensated absences, and cost of goods sold. Current year appropriations may be committed for goods and services not received as of fiscal year end. Executory commitments totalled $11,480 for audit fees.

14. EMPLOYEES' RETIREMENT SYSTEM.

Employees of the Montana Lottery participate in the Montana Public Employees' Retirement System (PERS). Based on gross wages, mandatory contributions are 6% for employees and 6.417% for employers. The Lottery has made all required contributions. Retirement expense was $46,553 for the period ended June 30, 1988.

The Montana Public Employees' Retirement System does not segregate financial information for each entity participating in the system. Therefore, the required actuarial information related to the Montana Lottery is not available. However, actuarial information related to the Public Employees' Retirement System may be obtained from PERS.

15. GAMING SUPPLIER CONTRACTS.

Tickets. On March 9, 1987, the Montana Lottery signed a one year contract with Scientific Games, Inc. to purchase lottery tickets. Under that contract, each instant ticket game consisted of 4,800,000 tickets or "other quantity as agreed by the parties."

This contract was extended until March 9, 1989 by letter dated February 23, 1988 and amended on May 5, 1988. The contract amendments address certain ticket specifications, price, and quantity. The amended minimum order quantity is 4,080,000 tickets.

The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure. The contract requires payment within 30 days of ticket receipt.

Scientific Games, Inc., as the vendor, delivered a $776,104 performance bond covering the contract term. The Company also provided an errors and omissions policy covering an ultimate net loss of $5,000,000.

This contract may be terminated when termination is in the best interest of the Lottery with proper notification to Scientific Games, Inc.

Computer Hardware and Software. The Lottery contracted with Scientific Games, Inc. on February 25, 1987, to purchase a used Stratus computer. The computer hardware and software cost $381,243. This contract also covered the acquisition of an Uninterruptable Power Supply (UPS) system for $40,551. The UPS system protects the computer against electrical power surges and failures.

The Lottery signed a separate agreement with Stratus Computer, Inc. on June 2, 1987, for maintenance of the Stratus computer hardware and software. Monthly maintenance totals $4,433.

On July 28, 1987, the Lottery signed a second agreement with Stratus Computer, Inc. regarding the Stratus software license. Under this contract, Stratus Computer, Inc. grants the Lottery a "nonexclusive, nontransferable license" to use the software of the Stratus computer. The proprietary rights and title of the software remain with Stratus Computer, Inc.

Training. The Montana Lottery contracted with Scientific Games, Inc. on January 15, 1987, to provide training and start-up assistance. This contract for $250,000 required quarterly payments of $62,500 due July 24, 1987, October 24, 1987, January 24, 1988, and April 24, 1988.

Lottery Software. On February 25, 1987, the Lottery agreed to purchase the instant Lottery System (ILS) software package for $840,400. This agreement provides the Lottery a "perpetual, non-exclusive, nontransferable license to use the software solely for the Lottery's own use". The contract allows the Lottery to make 36 monthly payments of $23,344.44 with no interest. The first payment was due June, 1987.

Lottery Consultant. On November 30, 1986, the Montana Department of Commerce contracted with Lottery Science, Inc. for lottery consultant services. These services included organization structure, facility specifications, timetables, game implementation plans, and other recommendations. These services were required due to the July 1, 1987 mandate for an operational lottery.

The contract, covering the period from November 30, 1986 to February 28, 1987, provided for payment of $58.14 per hour not to exceed $30,000, $100 per diem while in Helena, and travel expense reimbursement.

Lottery Consultant. The Montana Lottery contracted with Gaming Dimensions, Inc. on February 27, 1987 for consultant services. These services included timetable development, fiscal and legislative recommendations, security system design, sales structure, and game implementation plans. These services were obtained due to the unexpected death of the consultant associated with Lottery Science, Inc. The contract terms provide for payment of services at $58.14 per hour, $100 per diem while in Helena, and reimbursement of travel expenses.

This contract was amended on June 1, 1987. The consultant's work was redefined to develop a test of the lottery system software, provide advice on start-up and adequacy of training, and prepare a report on the feasibility of an on-line game and regional lotteries. The amended contract provides for payment of the consultant at $58.14 per hour for a maximum of 160 hours per month, $50 per diem while in Helena, and travel expense reimbursement. The contract expired on December 31, 1987.

16. SUBSEQUENT EVENTS.

On July 21, 1988, the Lottery paid $1,232,477 for the quarter ended June 30, 1988 to the State Superintendent of Public Instruction. Lottery transfers amounting to $8,375,894 were distributed to eligible counties by the State Superintendent of Public Instruction in September 1988.

On September 26, 1988, the Montana Lottery awarded annuities amounting to $2,350,180 from Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. The Lottery will be contingently liable for the remaining prize payments.

OTHER

INFORMATION

MONTANA LOTTERY
SUMMARY OF FINANCIAL DISTRIBUTION
YEAR ENDED JUNE 30, 1988

COMMISSIONS - Section 23-5-1016(10), MCA provides retailers a 5% commission on tickets or chances sold. The commission on tickets sold to the retailer gives the retailer $25 per book of 500 tickets. The 5% commission of $1,210,074 for the year ended June 30, 1988 is based on gross lottery ticket sales of $23,387,553 plus approximately 814,000 net estimated returned tickets.

OPERATING EXPENSES - The Lottery, according to Section 23-5-1027(2), MCA, is allowed "up to 15% of gross revenue for operating expenses." Gross revenue includes net lottery ticket revenue and license fees. While retailer commissions, by law, are not considered an operating expense, interest expense is considered an operating expense for this purpose. The operating expense percentage for the year ended June 30, 1988, using the accrual basis of accounting, is as follows:

	Year ended June 30, 1988
Net lottery ticket revenue	$21,787,581
License and permits	5,900
Total Gross Revenue	$21,793,481
Operating expenses	$ 3,275,128
Interest expense	18,022
Total Operating Expense	$ 3,293,150
Operating expense percentage	15.11%

Operating expenses, as determined by the state budgeting process, by law, must be 15% or less of gross revenue over a fiscal year's time. The operating expense percentage, using the state budgeting process, is as calculated as follows:

	Year ended June 30, 1988
Net lottery ticket revenue	$21,787,581
License and permits	5,900
	$21,793,481
Operating expenses	3,098,480
Operating expense percentage	14.22%

The above operating expenses of $3,098,480 include $18,022 in interest expense, $594,541 for ticket purchases, $280,751 for installment purchase payments and $41,976 in capital equipment expense. The ticket purchases, installment purchase payments, and capital equipment expenses were reclassified, using the accrual basis of accounting, to reflect the ticket inventory, the decrease in the installment purchase payable, and capitalization of assets.

Nonbudgeted expenses, netting to $169,455, for amortization, depreciation, personal service expense related to compensated absences, and cost of goods sold are not reflected in the operating expenses of $3,098,480. Also $87,707 in expenses attributed to the Lottery's start up expenses are not included in the $3,098,480 operating expense total.

For budgetary purposes, $11,480 for audit fees is included in the $3,098,480 operating expense above. This audit expense is not included in the financial statements because these fees relate to services to be provided in fiscal year 1988-1989.

STATE SUPERINTENDENT OF PUBLIC INSTRUCTION TRANSFER - The funds transferred to the State Superintendent of Public Instruction, by law, are not based on a percentage of revenue. The distribution is based on a definition of net revenue. Net revenue is that part of all gross revenue not used for the payment of prizes, commissions, and operating expenses. Net revenue for the year ended June 30, 1988 is detailed below:

	Year ended June 30, 1988
Income before Operating Transfers	$7,482,842
Prior Period Adjustments	(482,067)
Net Revenue for Fiscal Year 1987-1988	$7,000,775
Net Revenue for Fiscal Year 1986-1987	1,235,684
Adjustment for Estimated Ticket Returns	139,435
Transfer to State Superintendent of Public Instruction	$8,375,894

PRIZES - Section 23-5-1027(1a) states "as near as possible to 45% of the money paid for tickets or chances must be paid out as prize money..."

Prize expense is recorded based on the predetermined prize structure percentage for each game. For the year ended June 30, 1988, the prize expense of $9,807,415 is 45.01% of the net Lottery revenue of $21,787,581.

When recording the prize expense, a corresponding liability for high-tier and Big Spin prizes is also recorded. The relationship between prize expense, prizes paid and the change within prize liability is illustrated below:

July 1, through June 30, 1988		Percent of Net Lottery Ticket Revenue
Prizes paid	$7,070,268	32.45%
Instabucks	(5,020)	(.02)
Adjusted for estimated ticket returns as of June 30, 1987	460,403	2.11
Increase (decrease) in prize liability	2,281,764	10.47
Prize expense	$9,807,415	45.01%

The prizes paid percentage is less than the mandated 45% due to the increase in unclaimed prizes and the yet to be purchased annuities for the Jackpot prizes. If these prizes are unclaimed within six months after game end, the remaining funds become available for prizes in other games.

400 copies of this public document were published at an estimated cost of $2.00 per copy, for a total cost of $800.00, which includes $800.00 for printing and $.00 for distribution.